

School of Economics and Finance

## **MOFI 404 MONETARY ECONOMICS B**

Trimester Two 2007

### **COURSE OUTLINE**

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#### **Contact Details**

Lecturer and Course Coordinator: Dr. Chia-Ying Chang

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Office Hours: Wednesdays 2-3pm and by appointment.

#### **Class Times and Room Numbers**

Class Time: Tuesdays, 3:40-5:30pm.

Location: Railway Station (RWW) 220.

Prerequisite: MOFI 303 or ECON 305

Final Examination Period: Oct. 15<sup>th</sup>-Nov. 11<sup>th</sup>, 2007.

#### **Course Objectives**

The objective of MOFI 404 is to provide an in-depth understanding of modern monetary theory. No doubt, Monetary Economics overlaps with Macroeconomics in some more general areas. However, Monetary Economics is more distinct in emphasizing price level determination, inflation, and the role of monetary policy. MOFI 404 takes the infinite horizon approach to monetary economics instead of overlapping generation approach, which has been covered in MOFI 303. That is because infinite-horizon approach is very helpful in highlighting some key issues of monetary theory and policy, such as generating links between monetary and real economic phenomena.

We first consider three basic monetary economic models: *the money-in-utility (MIU) model*, *the transaction model*, and *the monetary search-theoretic model*, which focus on the essential features of money. While the first two models employ a neoclassical growth framework to study monetary phenomena, the third model has a build-in monetary essentiality. It is important to learn the features of each model in order to understand the advantages of each in addressing the issues of Monetary Economics.

The topics, *Monetary Transmission Mechanisms* and *Money and Credit*, discuss the channels of how monetary policy affects the real economy. Primarily, a monetary policy operates through interest rates and exchange rates. Credit channels provide an alternative view arising from imperfect information. Following discussions on imperfect information, *Banking Theory* reviews the role of money in banking industry. More specifically, incentive problems of an individual may cause the possibility of bank runs.

*Inflation* attempts to show the short-run effects of monetary policy shocks. Lucas’s misperception model is an important piece in this attempt to provide insights of money-output link. Then the proceeding topics focus on strategic monetary policy: *Money and Public Finance*, and *Discretion Policy and Time Inconsistency*, followed by *Financial Markets and Monetary Policy*, which examines various ways of modelling financial market imperfections in monetary models, such as net worth, contracts, and financial constraints...etc.

The intended learning outcomes for students who complete this course are:

1. The insights of important issues in Monetary Economic Theories.
2. The ability to analyse inflation, interest rates, interaction between monetary and real economic phenomena.
3. The skills to evaluate a monetary policy and/or a combination of monetary and fiscal policies. For example, the effect of monetary and/or fiscal policy on consumption, banking industry, financial market...etc.

**MOFI 404**

| Week | Topic                                       |
|------|---|
| 1-3  | Monetary Models                             |
| 4    | Monetary Transmission Mechanisms            |
| 4-5  | Money and Credit                            |
| 6    | Banking Theory                              |
| 7    | Inflation                                   |
| 8    | Money and Public Finance                    |
| 9    | Discretionary Policy and Time Inconsistency |
| 10   | Money and Interest Rates                    |
| 11   | Financial Market and Monetary Policy        |
| 12   | Students’ Presentations                     |

**Expected Workload**

Class attendance: 3 hours/week  
 Reading and Reviewing: 12 hours/week  
 Assignments: 2.5 hours/week on average.

## **Readings**

Chapters from the following books will be prescribed for this course:

### *Required:*

\*\*Walsh, Carl E. (2002), *Monetary Theory and Policy*, Cambridge, MIT Press.

### *Optional:*

Blanchard, Olivier Jean, and Stanley Fischer (1989), *Lectures in Macroeconomics*, Cambridge, The MIT Press.

Romer, David (2003), *Advanced Macroeconomics*, New York, McGraw-Hill/Irwin.

Mankiw, Gregory and David Romer (1991), *A New Keynesian Economics*, Cambridge, MIT Press.

Other readings of the course will be from research journals. A detailed reading list will be distributed in class and posted on the Blackboard.

## **Assessment Requirements**

There will be 12 meetings during the trimester. Students are expected to read the relevant literature before each meeting and to take part in class discussion.

20% for two assignments (due [August 14<sup>th</sup>](#) and [October 2<sup>nd</sup>](#) at 3:40pm in class)

20% for two reports (due [September 4<sup>th</sup>](#), and [October 9<sup>th</sup>](#), at 3:40pm *before* class, in PDF format via email).

5% for class presentation on [October 9<sup>th</sup>](#) in class.

55% for final examination (Oct. 15<sup>th</sup>-Nov. 11<sup>th</sup>, 2007)

## **Mandatory Course Requirements**

Two assignments, two reports must be submitted ON TIME.

## **Communication of Additional Information**

Additional information will be posted on Blackboard through announcements.

## **Faculty of Commerce and Administration Offices**

### Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

### Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

### **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar or go to [www.vuw.ac.nz/policy](http://www.vuw.ac.nz/policy).

For information on the following topics, go to the Faculty's website [www.vuw.ac.nz/fca](http://www.vuw.ac.nz/fca) under Important Information for Students:

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

### **Manaaki Pihipihinga Programme**

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email [manaaki-pihipihinga-programme@vuw.ac.nz](mailto:manaaki-pihipihinga-programme@vuw.ac.nz) or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email [pacific-support-coord@vuw.ac.nz](mailto:pacific-support-coord@vuw.ac.nz) or phone (04) 463 5842.